

Weapons in Egypt**Arms Sales to Egypt
Yielded Huge Profits
For Obscure New Firm****A Shipping Company Set Up
By Egyptian, Ex-Agent
Of CIA Is Being Probed****Pentagon Bends Some Rules**

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WASHINGTON—In the spring of 1979, President Jimmy Carter and Egyptian President Anwar Sadat were basking in the glow of the historic peace treaty between Egypt and Israel.

A few months later, away from the limelight, another American and another Egyptian were fashioning a different kind of agreement. They were entrepreneurs with government connections, and they were looking to make money on the treaty—lots of it. Egypt's willingness to make peace had won for it a promise of billions of dollars in U.S. military aid to purchase jets, tanks, missiles and other arms. And someone would be hired to ship these weapons.

As it turned out, that someone was the Egyptian American Transport & Services Corp., or Eatsco, an unknown company set up in August 1979 by the two men, Hussein K. Salem, a mysterious Egyptian businessman, and Thomas G. Clines, an American fresh out of the Central Intelligence Agency.

By November, Egypt's defense ministry and the U.S. Defense Department had both approved paying Eatsco to be the agent for the huge arms shipments, despite nagging worries at the Pentagon that the fledgling company was unqualified.

Payments Begin

In December, the U.S. Treasury, on Pentagon orders, began a series of payments to Eatsco that, by last month, totaled \$71.4 million. The money came from generous U.S. government loans to Egypt that needn't be repaid for decades, if at all.

Now the new company's quick success is being questioned. For months, the Justice department has been investigating Eatsco's affairs. A grand jury in Alexandria, Va., is studying how the untried, hastily formed concern won Pentagon approval and whether its billing procedures were proper.

Whatever the legal findings, the history of Eatsco raises difficult questions about the manner in which U.S. arms sales credits are spent, how the Pentagon monitors that spending and how defense officials deal with foreign allies anxious for money and arms. Defense officials questioned about the Eatsco matter concede that the Pentagon's Defense Security Assistance Agency, the office responsible for arms sales, hasn't any auditing force to check on the billions of dollars in loans it doles out to foreign armies.

The company's smooth sailing at the Pentagon was possible only because defense officials decided to swallow their own doubts and to bend Pentagon rules, according to officials there. Mr. Salem had the blessings of the Egyptian government, and the U.S. was anxious to please President Sadat.

Thus, Egypt was allowed to hand over some of its U.S. loan funds to Eatsco even though Pentagon policy normally bars using such funds to cover shipping. And Eatsco's approval came only a few months after the Pentagon rebuffed an earlier bid by Egypt to have Mr. Salem handle the arms shipments.

Late last year, the Pentagon says, "the Maritime Administration raised suspicions that Eatsco may have overcharged" for certain portions of the arms shipments, even though its fees overall were competitive. A subsequent review by Pentagon aides identified several million dollars in charges listed on selected Eatsco invoices that couldn't be explained by comparing them with bills Eatsco received from shipping lines. The Pentagon never determined whether the differences amounted to improprieties. But the Federal Bureau of Investigation is poring over Eatsco and Pentagon records to try to find out.

Prosecutors are also investigating Eatsco's ties, if any, to Edwin P. Wilson, a former CIA agent currently in jail awaiting trial on charges of aiding terrorists in Libya and conspiring to kill a Libyan dissident. In January 1979, Mr. Wilson arranged a \$500,000 loan for his friend, Mr. Clines. The money was funneled through Bermuda and some of it went to a company later used by Mr. Clines to buy into Eatsco, according to a source close to Mr. Clines.

The prosecutors are studying, too, the conduct of two top Pentagon officials—Air Force Maj. Gen. Richard V. Secord and arms sales chief Erich F. von Marbod, now retired—who helped oversee the Egyptian sales. Mr. Wilson and Mr. Clines knew both officials. Gen. Secord was involved in a 1978 real-estate transaction with Mr. Clines and Mr. Wilson and was given the use of Mr. Wilson's plane in 1978 and 1979.

Ties to Ex-CIA Men

Investigators want to know if the defense officials' government actions relating to Egypt or other matters were influenced by their ties to the former CIA men. Of particular interest is a London dinner attended by Mr. von Marbod, Gen. Secord and Mr. Wilson in January 1979—around the time that Mr. Wilson arranged the loan for Mr. Clines.

The grand jury is trying to determine if federal fraud, conspiracy or other laws were broken in the Eatsco matter. But no such charges have been leveled and Eatsco continues to handle the arms shipments, which the Pentagon says have gone generally well. However, the Pentagon says, it stopped paying Eatsco for a time early this year and

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no longer makes multimillion-dollar advance payments to the company.

Gen. Secord, who advises Defense Secretary Casper Weinberger on Middle East arms-sales policy, was suspended for three months this year after the Pentagon learned of his ties to Mr. Wilson, according to a Pentagon official. He was reinstated after he agreed to a lie-detector test of his assertions of innocence. (The test was never given.) Mr. von Marbo, 53, retired last December, citing health reasons.

Lawyers for all the men and companies under study insist their clients are innocent of any wrongdoing, and some charge that their associates of Mr. Wilson are feeding the prosecutors false information that might help dig him out of his deep legal hole. They also contend that some of Eatsco's competitors are spreading innuendoes. (The chief prosecutor, Theodore S. Greenberg, won't comment on the case.)

The case is so sensitive, because of the potential for damage to U.S.-Egyptian relations, that it is being personally overseen by high Justice Department officials, one of whom traveled to Egypt recently. The U.S. has taken pains to avoid angering or embarrassing Cairo and to seek its cooperation.

Many questions remain unanswered. The Justice Department may be unable to answer them all. For instance, defense officials still can't say why Mr. Salim was picked by Egypt to ship the arms, and Justice Department sources hasten to say that prosecutors haven't any evidence that Egyptian officials were improperly influenced by him.

The Egyptian government won't comment on Eatsco.

A spokesman for Eatsco and Mr. Salim says the company performed both competently and legally. Eatsco, he says, actually saved money and the Egyptian government is satisfied with Eatsco's performance and charges, including all profits, which are below the limits permitted by its contract with Egypt. Pentagon officials confirm that Eatsco's charges averaged less than the 10.15% of value shipped allowed in its contract. The Pentagon says Eatsco rates are competitive with other private firms and well below the cost of military transport.

It is known that prosecutors are intensely interested in the personal relations between Mr. Clines and Mr. Wilson and the Pentagon officials, Mr. von Marbo and Gen. Secord. Mr. Clines and Gen. Secord have been close friends since both served in covert operations in Southeast Asia in 1967, and Mr. Clines introduced the general to Mr. Wilson in 1971. Both former CIA men also knew Mr. von Marbo, though apparently less well.

In January 1979, around the time Mr. Wilson was arranging the loan to Mr. Clines of \$500,000, Mr. Wilson met over dinner and drinks in a London restaurant with Gen. Secord and Mr. von Marbo, who were there on official business. The meeting among the three men is confirmed by several sources, including two close to Gen. Secord.

Link to Libya

It isn't known what transpired at the meeting, which took place more than a year after it was publicly reported that Mr. Wilson was under federal investigation for his activities in behalf of anti-American Libya. Sources close to Gen. Secord say that the general and Mr. von Marbo had told associates that the occasion was purely social. Investigators are also studying transactions between Gen. Secord and Mr. Clines and Mr. Wilson.

While serving as a U.S. military adviser in Iran in 1977, Gen. Secord bought a suburban Washington town house from Mr. Clines for \$56,000. The investment became a "big drag" on the general's finances because a tenant couldn't be found for it, according to a source close to Gen. Secord. So, in September 1978, shortly after Gen. Secord returned home, Mr. Clines arranged for Mr. Wilson to take the house off his hands for \$62,000, according to several sources and land records.

The general's lawyer, Thomas Green, says the house deals were innocent and that his client didn't profit from them.

Around the same time in 1978, officials in the Pentagon and elsewhere say, Mr. Wilson bought a private plane, a 1980-100 twin-engine Beechcraft, for business use. He encouraged Gen. Secord, who had advised him on the type of plane to buy, to pilot the Washington-based aircraft as often as possible, the officials say.

From the fall of 1978 until mid-1979, the general piloted the plane on personal flights 11 times, paying for fuel but not for the use of the aircraft. Gen. Secord's lawyer says the flights shouldn't be seen as a free benefit for his client. Instead, he says, the general was doing Mr. Wilson a favor by giving the aircraft the use needed to keep it in good flying condition.

Denials of Wrongdoing

The attorney says Gen. Secord did nothing wrong, hadn't any direct role in approving Eatsco, and did nothing in his official capacity to aid Mr. Wilson and Mr. Clines. He adds that, at the time of the house deals, the aircraft use and the London dinner, Gen. Secord didn't know Mr. Wilson worked for Libya's government or that he was under investigation.

Mr. von Marbo's lawyer, Robert S. Bennett, says the former arms sales chief never engaged in "any improper, unethical, or illegal conduct," or violated his duties.

John Ellsworth Stein, Mr. Clines's lawyer, says Mr. Clines "vigorously denies the allegations that Eatsco engaged in any unlawful or improper business practices" and is "confident" he won't be charged with any crimes. He says Mr. Clines denies Mr. Wilson held any interest in Eatsco.

Mr. Wilson's lawyer, Herald Price Fahlinger, declines comment.

Under pressure from both the Justice and State Departments, the Pentagon has refused to let The Wall Street Journal see the more than 20,000 documents it holds relating to Eatsco, and it has stopped answering even routine press questions on the subject.

But enough facts have emerged to show that Eatsco's story is an intriguing tale of business and international politics with a cast of colorful characters—spies and generals, wheel-dealers, feeding and bungling bureaucrats.

From the start, the concept of a middleman company such as Eatsco, which serves as logistics manager for the Egyptian arms shipments, was a strange animal to those in

the Pentagon who deal with arms sales. Defense officials explain that Egypt's approach to the shipments was different from that of other big customers, such as Israel, which haven't any commercial concern like Eatsco between their governments and the U.S. freight forwarders they use. These countries deal with the freight forwarders through three government arms buying missions here. (A freight forwarder books cargo space and generally makes shipping arrangements.)

Eatsco's tale begins with Hussein Salem, an obscure Egyptian businessman described as a short, stocky man in his 40s. People in this country who have dealt with him seem to agree that he is ambitious, very secretive and careful to curry favor with those in power.

Mr. Salem operates out of Cairo, London, Geneva and Washington, and has been variously described as a former intelligence officer, a former Cairo bureaucrat, or a Persian Gulf shipper. But Pentagon officials say they knew nothing about him when he showed up in 1979 with a letter from Egypt's government granting him the right to handle the Egyptian arms shipments.

Many in the U.S. government believe he is closely connected with Egyptian Foreign Minister Kamal Hassan Ali and Defense Minister Mohammed Abu Ghazala, both former generals. But a senior American diplomat, who served in Egypt in the late 1970s, insists, "I never heard of Salem when I was in Egypt, either as a government figure or a shipping magnate." (Mr. Salem has been out of the U.S. for months and isn't talking.)

Penchant for Secrecy

Mr. Salem's penchant for secrecy added to the mystery about him. One of his former employees recalls Mr. Salem's taking cryptic notes at a business meeting on a long yellow legal pad. When the meeting ended, the employee says, Mr. Salem immediately placed his notes in a paper shredder. "He once told me," the man says, "keep everything to yourself! You needn't tell anybody anything."

Whatever his background, it is generally agreed that Mr. Salem arrived in Washington in late summer or early fall of 1978, around the time Egypt, Israel and the U.S. agreed at Camp David to seek a Middle East peace treaty. Already, some U.S. military goods were beginning to trickle into Egypt.

But Mr. Salem and others interested in arms sales expected the trickle to turn to a flood once Egypt and Israel formally made peace. His foreign-based company, Tersam, set up shop in Washington's Virginia suburbs. Mr. Salem's use in the hole was a letter from the office of Gen. Ali—then Egypt's defense minister—appointing him to handle the expected arms shipments, according to a Pentagon official.

As predicted, the arms dam burst the following March, when the treaty was signed. Since then, the U.S. has agreed to sell Egypt about \$4 billion worth of military gear—F16 jets, M60 tanks, missiles, radar units and many other items—and has approved nearly \$3 billion in loans to finance the purchases. The arms trade is a shipper's dream.

Early Rejection

When Mr. Salem walked into the Pentagon office of a senior official, Erich von Marbo that spring or early summer, however, he got a quick jolt: Mr. von Marbo, who had to pass on Egypt's use of the loan funds, turned thumbs down on him. Air Force Col. Thomas Schoegler, the Egyptian desk officer who worked for Mr. von Marbo, attended the meeting. "He (Mr. von Marbo) was concerned that Tersam wasn't a company that could perform," the colonel recalls.

The Egyptian, says Col. Schoegler, "was a little taken aback" by Mr. von Marbo's stand in the face of Gen. Ali's letter of endorsement.

Mr. von Marbo was well known for making just such tough calls. Pentagon officials say. Although at the time he was only deputy director of the Pentagon's arms sales agency, he had been picked by then-Defense Secretary Harold Brown to assure the quick, smooth start for the vital U.S.-Egyptian arms relationship, which was a high White House priority. He was confident the then man the job because of his reputation for decisiveness and for finding ways around Pentagon red tape.

Throughout his career, Mr. von Marbo had drawn a succession of tricky arms sales assignments in the Middle East, Southeast Asia and Iran. He is said to have walked the streets of Tehran earlier in 1979 with a derisive finger strapping to his leg. Mr. von Marbo's specific problem that summer was to meet President Sadat's demand that the first batch of highly visible U.S. weapons—including Phantom jets and armored vehicles—reach Cairo in time for the annual military parade on Oct. 6, a tight time schedule by Pentagon standards.

After learning that the Maritime Administration knew nothing of Tersam's track record, Mr. von Marbo concluded that the shipments couldn't be risked with Mr. Salem. Col. Schoegler says, and decided to send them to U.S. military ships and planes.

Need for a U.S. Firm

According to the colonel, Mr. von Marbo told him (Mr. Salem) that we weren't going to use them for the interim period. Mr. von Marbo didn't specify to him when the shipping "was going to be switched over to Tersam," or if it was ever to be switched over. In addition, the colonel says, Mr. Salem—who knew little about Pentagon rules—was told that regulations required shippers to be U.S.-based firms, using U.S. ships, able to comply with Pentagon billing practices.

The arms sales official had an ally in his stand: Gen. Richard Secord, a close colleague who at the time was the Air Force's top international relations official. The general knew that, under U.S. policy, the Phantoms themselves would be flown by the Air Force to Egypt. But he was fearful, Pentagon sources say, that if the supplies and gear needed to support the jets were shipped privately, they might be late or lost and the parade off by at the parade could prove impossible.

The hard-nosed general, like Mr. von Marbo, had had years of experience in dealing with foreign arms sales. Both men served in Southeast Asia and Iran, both had worked closely with U.S. intelligence agencies and had many contacts in the intelligence community and overseas. Gen. Secord had personally signed the agreement to sell Egypt the Phantom jets that were the heart of the 1979 arms package.

Egyptian officials complained about the von Marbo decision, but Col. Schoegler says "he just cut them off. . . . He had a hammer over them."

Thus, Mr. Salem lost the first big U.S. arms shipment to Egypt, but it wouldn't be long before he got approval. He was already moving to form a U.S. company to comply with the Pentagon's wishes, and he was also seeking an American partner. He joined up with Thomas Clines, the former CIA official, after another American businessman declined Mr. Salem's partnership offer.

Career in CIA

Mr. Clines served in the CIA for more than 25 years, having joined the agency when he was only 19 years old. He rose to a senior position in clandestine operations and also served as a liaison to the Pentagon, people familiar with his career say, before retiring in October 1978. He set up several companies in 1978 and 1979 to conduct international trade in military materiel, oil-field equipment and other goods.

In early August 1979, Mr. Clines and Mr. Salem formed Eatsco. Sources familiar with the company say Mr. Salem put in \$51,000 for his 51% control and that Mr. Clines used a small company he founded—Systems Services International Inc.—to acquire 49% of Eatsco for \$49,000.

Even today, it isn't clear how the two men got together or whether they were previously acquainted. Mr. Clines has told others that he pursued Mr. Salem and won him over after the Egyptian expressed fear that any big, established American partner would swallow him up.

Mr. Clines, who, associates say, bragged about his government connections, also offered to provide the new company with the services of R.C. Heilmann & Co., a Baltimore freight forwarder, with which he had good connections.

A former Salem employee, retired Air Force Col. Joseph J. McLachlan, says Mr. Salem and Egyptian Gen. Ghazala told him the U.S. ordered Heilmann's hiring. "Your government told us we had to take Heilmann," Mr. McLachlan says he was told by Gen. Ghazala, a close friend.

Any Role of Wilson?

Federal investigators are focusing currently on whether Mr. Wilson, the jailed former agent for the CIA and naval intelligence, had any role in the Clines-Salem venture. A longtime friend of Mr. Clines, Mr. Wilson was an expert in using companies, agents and secret bank accounts to mask his activities. In 1980, a former employee of his in Libya, arrested in the U.S. after the shooting of a Libyan dissident in Colorado, was found to possess handwritten notes listing the names of Eatsco, Mr. Salem and top Egyptian officials.

People familiar with the financial relationship between Mr. Clines and Mr. Wilson say that in early 1979, on Mr. Wilson's instructions, his Geneva attorney arranged a \$500,000 loan for Mr. Clines. The funds came from "a company associated with Ed Wilson," according to a source close to him, and were sent to a Clines company in Bermuda. And Mr. Clines, according to a source close to him, made periodic fund transfers from the Bermuda firm to his companies, including Systems Services International, to cover operating expenses. Later in 1979, Mr. Clines used SSI to buy into Eatsco, the source says.

Sometime later, the source adds, Mr. Clines paid off the loan, with interest. There isn't any public evidence that Mr. Wilson held an interest in, or in any way controlled, Eatsco. Nonetheless, after the Wilson Clines ties became public in a newspaper story late 1981, Mr. Salem bought out Mr. Clines for an undisclosed sum, partly to avoid any ties with Egypt's Libyan enemies.

Embassy Pressure

While Mr. Salem was transforming Tersam into Eatsco, the Egyptian embassy was continuing to press Mr. von Marbo on his behalf. In letters and in meetings, Mr. Salem was backed by Gen. Ghazala, now the defense minister and then the military attaché in Washington; and by a Ghazala aide, Gen. Moubar Sabet, brother-in-law of Egypt's current president, Hosni Mubarak, according to Pentagon officials.

By November, Mr. Salem was back in Mr. von Marbo's office, and this time he was given the go-ahead.

The reasons for the defense official's turnaround aren't certain. But his former aide, Col. Schoegler, offers these explanations: First, Egyptian officials told Mr. von Marbo that Mr. Salem had set up an American company, Eatsco, and second, a Maritime Administration official, S. Thomas Forrester, informed the defense official that Eatsco had retained an able freight forwarder, Heilmann, and could, thus, perform the shipping.

Nevertheless, he says, Mr. von Marbo still "reluctantly went along with it. He was never very comfortable" with the company, the colonel recalls. "He didn't feel that Eatsco had to be. He felt that Heilmann could have handled it (alone)." Despite these doubts, Mr. von Marbo ordered an advance payment of \$13.5 million to Eatsco, followed by further advances of \$7.5 million periodically over the next two years. Eatsco wasn't made to account for the advances until after the funds were spent.

Thousands of Eatsco invoices, accompanied by fat stacks of backup bills Eatsco paid, were submitted, but never audited, Pentagon aides say. They were reviewed only by low-level clerks, who merely checked to see that Egypt had okayed them, that the arithmetic was okay, and that they didn't list payments for nondefense goods.

Comparison of Charges

But the Maritime Administration also was monitoring Eatsco. In November last year, the Pentagon says, the agency's Mr. Romeo came to Mr. von Marbo and said he believed Eatsco's billing method was unacceptable and might contain substantial overcharges for particular services.

Prompted by Mr. Romeo, and on Mr. von Marbo's orders, the Pentagon began an inquiry. Col. Schoegler says, Pentagon aides compared certain of Eatsco's submissions with actual shipping line bills for six sample voyages and found that Eatsco's charges were \$5 million or so higher.

The comparison involved bills Eatsco had paid to a Heilmann subsidiary that isn't a